

TUSCOLA AREA AIRPORT AUTHORITY
Caro, Michigan

Report on Financial Statements
Period Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name Tuscola Area Airport Authority	County Tuscola
Audit Date June 30, 2004	Opinion Date Nov 9, 2004	Date Accountant Report Submitted to State: Nov 12, 2004		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Anderson, Tuckey, Bernhardt & Doran, P.C.			
Street Address 715 East Frank Street		City Caro	State MI
Accountant Signature John James Hankel, CPA		ZIP 48723	Date 11-12-04

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

November 9, 2004

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

REPORT OF INDEPENDENT AUDITORS

Honorable Board Members
Tuscola Area Airport Authority
Caro, Michigan 48723

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Tuscola Area Airport Authority, Caro, Michigan, as of and for the years ended June 30, 2004 and 2003 as listed in the Table of Contents, which collectively comprise a portion of the Tuscola Area Airport Authority's basic financial statements required by the accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Tuscola Area Airport Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standard generally accepted in the United States of America. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes the financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Tuscola Area Airport Authority's governmental activities are not reasonable determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Tuscola Area Airport Authority, Caro, Michigan as of June 30, 2004, or changes in its financial position or its cash flows, where applicable, for the year then ended.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Tuscola Area Airport Authority, Caro, Michigan as of June 30, 2003, and the results of its operations and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
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GENERAL PURPOSE FINANCIAL STATEMENTS

TUSCOLA AREA AIRPORT AUTHORITY

Balance Sheet

	June 30,	
	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Cash	\$ 96,080	\$ 69,400
Accounts receivable - net	14,857	11,210
Note receivable - Dost	-	-
Note receivable - EZ Dock	-	-
Inventory	16,304	10,862
Fixed assets	2,969,046	2,850,350
Less: Accumulated Depreciation	<u>(517,490)</u>	<u>(419,509)</u>
TOTAL ASSETS	<u>\$ 2,578,797</u>	<u>\$ 2,522,313</u>
 <u>LIABILITIES & FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$ 9,298	\$ 15,657
Deferred rental income	-	5,930
Deposits	-	1,000
Current maturities of long-term debt	66,324	34,166
Notes payable - long-term	<u>119,604</u>	<u>185,928</u>
Total Liabilities	<u>195,226</u>	<u>242,681</u>
Fund Equity:		
Contributed capital - other governments	1,930,674	1,861,014
Retained earnings	<u>452,897</u>	<u>418,618</u>
Total Fund Equity	<u>2,383,571</u>	<u>2,279,632</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 2,578,797</u>	<u>\$ 2,522,313</u>

The accompanying footnotes are an integral part of the financial statements.

TUSCOLA AREA AIRPORT AUTHORITY

Statement of Revenue, Expenses, and Change in Retained Earnings

	June 30,	
	2004	2003
OPERATING REVENUE:		
Gas sales	\$ 27,478	\$ 35,762
Jet fuel	25,170	29,836
Hangar rentals	44,230	42,129
Miscellaneous	-	-
Total Operating Revenue	<u>96,878</u>	<u>107,727</u>
OPERATING EXPENSES:		
Salaries & wages	7,643	7,200
Payroll taxes & fringe benefits	9,289	13,818
Operating supplies	12,100	10,473
Contracted services	8,509	7,158
Telephone	1,627	1,785
Insurance	14,760	14,328
Heat, light & power	6,195	6,459
Maintenance & miscellaneous	1,302	-
Depreciation	97,981	85,968
Fuel purchases	<u>31,531</u>	<u>52,322</u>
Total Operating Expenses	<u>190,937</u>	<u>199,511</u>
OPERATING INCOME (LOSS)	<u>(94,059)</u>	<u>(91,784)</u>
NON-OPERATING REVENUE (EXPENSES):		
Bad Debts	-	734
Contributions from members & other local units	61,564	52,010
Gain on sale of fixed assets	8,800	63,450
Interest expense	<u>(10,924)</u>	<u>(12,490)</u>
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>59,440</u>	<u>103,704</u>
NET INCOME (LOSS)	<u>(34,619)</u>	<u>11,920</u>
Add: Depreciation on fixed assets acquired by grants externally restricted for capital acquisition and construction that reduces contributed capital	68,898	58,698
RETAINED EARNINGS - JULY 1	<u>418,618</u>	<u>348,000</u>
RETAINED EARNINGS - JUNE 30	<u><u>\$ 452,897</u></u>	<u><u>\$ 418,618</u></u>

The accompanying footnotes are an integral part of the financial statements.

TUSCOLA AREA AIRPORT AUTHORITY

Statement of Revenue, Expenses, and Change in Retained Earnings Budget (GAAP Basis) and Actual Year Ended June 30, 2004

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Gas sales	\$ 27,478	\$ 27,478	-
Jet fuel	17,246	25,170	\$ 7,924
Hangar rentals	44,230	44,230	-
Miscellaneous	38,059	-	(38,059)
Total Operating Revenue	<u>127,013</u>	<u>96,878</u>	<u>(30,135)</u>
OPERATING EXPENSES:			
Salaries & wages	7,643	7,643	-
Payroll taxes & fringe benefits	9,290	9,289	1
Operating supplies	6,920	12,100	(5,180)
Contracted services	7,900	8,509	(609)
Telephone	1,650	1,627	23
Insurance	14,760	14,760	-
Heat, light & power	5,870	6,195	(325)
Maintenance & miscellaneous	9,901	1,302	8,599
Depreciation	35,115	97,981	(62,866)
Fuel purchases	40,363	31,531	8,832
Total Operating Expenses	<u>139,412</u>	<u>190,937</u>	<u>(51,525)</u>
OPERATING INCOME (LOSS)	<u>(12,399)</u>	<u>(94,059)</u>	<u>(81,660)</u>
NON-OPERATING REVENUE (EXPENSES):			
Contributions from members & other local units	57,512	61,564	4,052
Gain on sale of fixed assets	7,800	8,800	1,000
Interest expense	(10,924)	(10,924)	-
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>54,388</u>	<u>59,440</u>	<u>5,052</u>
NET INCOME (LOSS)	<u>\$ 41,989</u>	<u>(34,619)</u>	<u>\$ (76,608)</u>
Add: Depreciation on fixed assets acquired by grants externally restricted for capital acquisition and construction that reduces contributed capital		68,898	
RETAINED EARNINGS - JULY 1		<u>418,618</u>	
RETAINED EARNINGS - JUNE 30		<u>\$ 452,897</u>	

The accompanying footnotes are an integral part of the financial statements.

TUSCOLA AREA AIRPORT AUTHORITY

Statement of Cash Flows

	June 30,	
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (34,619)	\$ 11,920
Add: Depreciation expense charged to contributed capital	68,898	58,698
ADJUSTMENT TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	97,981	85,968
Gain on sale of assets	(8,800)	(63,450)
CHANGE IN CURRENT ASSETS AND LIABILITIES:		
(Increase) decrease in accounts receivable	(3,647)	(8,090)
(Increase) decrease in note receivable	-	49,450
(Increase) decrease in inventory	(5,442)	(7,342)
Increase (decrease) in accounts payable	(6,359)	9,711
Increase (decrease) in accrued expenses	(6,930)	4,070
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>101,082</u>	<u>140,935</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	8,800	63,450
Capital expenditures	(118,697)	(522,977)
Contributed capital	69,661	335,668
NET CASH (USED) IN INVESTING ACTIVITIES	<u>(40,236)</u>	<u>(123,859)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Forgiveness of debt	(4,052)	
Principal payment on debt	(30,114)	(31,770)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(34,166)</u>	<u>(31,770)</u>
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	26,680	(14,694)
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>69,400</u>	<u>84,094</u>
CASH & CASH EQUIVALENTS AT END OR YEAR	<u><u>\$ 96,080</u></u>	<u><u>\$ 69,400</u></u>

The accompanying footnotes are an integral part of the financial statements.

TUSCOLA AREA AIRPORT AUTHORITY
Notes to the Financial Statements
June 30, 2004

NOTE 1 – DESCRIPTION OF TUSCOLA AREA AIRPORT AUTHORITY OPERATIONS AND FUND TYPES:

REPORTING ENTITY:

The TAAA (Authority) was incorporated in 1993 under the provisions of Act 206 of the Public Acts of 1957, as amended by Act 410 of the Public Acts of 1978, and by Act 312 of the Public Acts of 1982.

The municipal corporations that created the Authority include the Villages of Caro, Cass City and Kingston as well as the Townships of Almer and Elkland, all in the County of Tuscola, State of Michigan.

The purpose of this Authority is to exercise any and all powers necessary for the purpose of planning, promoting, acquiring, constructing, improving, enlarging, extending, owning, maintaining and operating the landing, navigational and building facilities of the Tuscola Area Airport, formerly known as the Caro Municipal Airport.

The Authority is governed under the direction of a board of as many directors as are appointed to it by member municipalities, as shall be determined from time to time, but not less than four (4).

The Board maintains its own accounting system; employs a manager; adopts rules, regulations, policies governing employees, property, and facilities; prepares an annual financial report; and adopts by-laws, policies, and procedures deemed necessary for conduct of business. The Authority is financed through grants and loans from Federal and State government, fees from users, contributions from governmental entities and other.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Authority (the primary government). The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The Authority has no component units.

FISCAL YEAR:

Effective April 1, 1999, the Authority elected to change the ending date of its fiscal year from March 31 to June 30.

BASIS OF PRESENTATION:

The financial activities of the Authority are recorded in a single fund described as follows:

Proprietary Fund:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

TUSCOLA AREA AIRPORT AUTHORITY

Notes to the Financial Statements

June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF ACCOUNTING:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expense) in net total assets.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

CASH, CASH EQUIVALENTS AND INVESTMENTS:

Investments are recorded at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value.

INVENTORIES:

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption are recorded as expenditures when consumed rather than when purchased.

FIXED ASSETS AND DEPRECIATION:

All assets are recorded at cost, except for depletable assets, which are at cost or appraisal value. Fixed Assets are depreciated using the straight-line method. When fixed assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Land Improvements	20-40 years
Buildings	30-50 years
Equipment	5-20 years

For information describing property and equipment, see Note 4.

BUDGETARY PROCEDURES:

Budgetary procedures are established pursuant to Act 312, P.A. 1982, which requires the Board to approve a budget for the Authority. The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the budget is legally enacted through passage of a resolution.
2. Any revisions of the budget must be approved by the Board.
3. Formal budgetary integration is employed as a management control device during the year for the Authority.
4. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board during the year. Individual amendments were not material in relation to the original appropriations that were amended.

TUSCOLA AREA AIRPORT AUTHORITY
Notes to the Financial Statements
June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ESTIMATES:

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – CASH DEPOSITS AND INVESTMENTS:

State statutes authorize the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard-rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Authority's deposits and investments are in accordance with statutory authority.

The risk disclosures for the Authority's deposits and investments, as required by GASB Statement No. 3, are as follows:

DEPOSITS:

At year-end, the carrying amount of the Authority's bank deposits was \$96,080 and the bank balance was \$97,221 of which \$97,221 was covered by federal depository insurance. The Authority places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the Authority, subject to minimal risk.

NOTE 4 – ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following:

	JUNE 30	
	<u>2004</u>	<u>2003</u>
Customer Receivables	\$16,557	\$ 6,919
Insurance Claim Receivable		7,074
Credit Card Receivable	<u>1,566</u>	<u>483</u>
	18,123	14,476
Less allowance for doubtful accounts	<u>(3,266)</u>	<u>(3,266)</u>
Total	\$14,857	\$11,210

TUSCOLA AREA AIRPORT AUTHORITY
Notes to the Financial Statements
June 30, 2004

NOTE 5 - SUMMARY OF FIXED ASSETS:

The following is a summary of fixed assets:

	JUNE 30,	
	<u>2004</u>	<u>2003</u>
Land	\$ 248,445	\$ 248,445
Land improvements	1,861,881	1,858,963
Buildings	597,556	596,056
Equipment	258,284	144,006
Fuel Tank	2,880	2,880
Less: Accumulated depreciation	<u>(517,490)</u>	<u>(419,509)</u>
Net Property, Plant and Equipment	\$2,451,556	\$2,430,841

NOTE 6 - CHANGES IN LONG-TERM DEBT:

The long-term debt of the Authority may be summarized as follows:

	<u>BALANCE</u> <u>6/30/03</u>	<u>ADDITIONS</u> <u>(REDUCTIONS)</u>	<u>BALANCE</u> <u>6/30/04</u>
Installment purchase contract payable to Independent Bank, due in monthly installments of \$2,468 over 180 months at 6.25%. Proceeds were used to erect an airplane hangar.	\$161,126	\$(20,114)	\$141,012
Non-interest bearing note payable to Tuscola County Economic Development Corp. with no repayment terms. Proceeds used for working Capital.	4,052	(4,052)	0
Note payable dated December 23, 1997 to Village of Caro due in full in 7 years at 2.5% per annum. Interest is accrued and paid annually. Proceeds used for working capital.	<u>54,916</u>	<u>(10,000)</u>	<u>44,916</u>
TOTAL LONG-TERM DEBT	\$220,094	\$(34,166)	185,928
LESS: CURRENT PORTION			<u>(66,324)</u>
LONG-TERM PORTION			\$119,604

The annual requirements to amortize long-term debt outstanding at June 30, 2004 is as follows:

<u>YEAR ENDING</u> <u>JUNE 30,</u>	<u>TOTAL</u>
2005	\$ 66,324
2006	22,785
2007	24,250
2008 - 2010	<u>72,569</u>
TOTAL	\$185,928

TUSCOLA AREA AIRPORT AUTHORITY
Notes to the Financial Statements
June 30, 2004

NOTE 7 - CONTRIBUTED CAPITAL:

A recap of changes in contributed capital is presented below:

Balance at June 30, 2003	\$1,861,014
- Donated Equipment	138,558
- Depreciation expense on assets acquired by grants	<u>(68,898)</u>
Balance at June 30, 2004	\$1,930,674

NOTE 8 – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, unemployment benefits, as well as medical and workman's compensation benefits provided to employees. The Authority has purchased commercial insurance for fleet equipment and tort claims, certain property and equipment damage and theft.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 9 – CAPITAL PROJECTS:

The Authority began two capital projects during the current fiscal year end June 30, 2004.

A weather observation project totaled at \$100,000. The project was to be funded 90% Federal and 5% State, leaving the Authority's share at 5% of the total. This project was completed by June 30, 2004.

A security fence project totaled at \$95,000. The project was to be funded 95% State, leaving the Authority's share at 5% of the total. This project was just started at June 30, 2004 and should be completed during the 2004-05 year.

NOTE 10 – GASB 34:

The Tuscola Area Airport Authority chose not to adopt GASB 34, which is required by Generally Accepted Accounting Principals (GAAP). This departure from GAAP is also noted in the audit report letter.